EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 4, 2001
(Senate Floor)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S. 1731 - Agriculture, Conservation, and Rural Enhancement Act of 2001

The President supports forward-looking farm legislation that facilitates the long-term prosperity of our Nation's farmers and ranchers, promotes effective conservation efforts, and strengthens the nutrition safety net. The President has urged Congress to adopt farm policy that embraces the Administration's principles. Because new legislation will shape the future of U.S. agriculture in an unusually critical time, the Administration believes that the Senate should resist retreating to policies, such as those contained in S. 1731, that will ultimately harm our farmers and ranchers. Consequently, the Administration strongly opposes S.1731, urges the Senate to defeat it, and supports the Cochran-Roberts Amendment as the more responsible, effective approach in helping America's farmers. The Administration will continue to work with the Congress to craft policy that better responds to rapid changes in the sector and the opportunities facing agriculture in the years ahead.

President's Farm Policy Principles

The President's farm policy principles, described in USDA's report entitled *Food and Agricultural Policy – Taking Stock for a New Century,* emphasize the following points:

Solid Safety Net. The Administration believes in providing a solid safety net for all farmers and ranchers – including a savings account for farmers that grows each year. The Administration recognizes that agriculture is a unique industry, buffeted not only by natural forces but also by the forces of economic policies and markets all around the world.
The safety net should protect producers from events and circumstances that are beyond their control, and enable them to better manage individual financial situations.

Trade Expansion. The Administration recognizes the enormous importance of foreign trade to the agriculture industry, with exports accounting for twenty-five percent of farm income. We support programs that facilitate trade and enhance the competitiveness of our farmers and food industry in the global marketplace. Producers must be able to aggressively compete for new markets, therefore, our domestic farm programs must be compatible with, and reinforce our trading objectives.

Enhanced Conservation. The Administration supports increasing resource conservation in ways that will enhance our environment. American farmers are uniquely situated to play a large and vital role in meeting these objectives. The Administration favors greater incentives that enable more farmers to undertake effective conservation activities on their working lands.

Market-Oriented. The Administration believes that farm legislation in the best long-term interests of our producers is market-oriented and minimally distorting of planting and investment decisions. Agriculture functions best when it is responsive to the market and to the needs of users and consumers, not to artificial government signals.

Fiscally Responsible**.** The President has called for a farm bill that is generous but affordable. The President supports farm legislation that provides authorization over five years and honors the limits of the Congressional Budget Resolution.

Concerns about S. 1731

S.1731 would expand the government's role in agriculture in a way that threatens the financial health of the farm sector, compromises our efforts to expand markets abroad for American farm products, and harms American consumers, especially those with lower incomes. The Administration supports a generous safety net for producers who encounter unavoidable financial stress while the farm economy improves. However, S.1731 attempts to address the vital needs of America's producers with policies that exacerbate current problems of overproduction and low commodity prices. Specific problems include:

Overproduction. S.1731 would increase government payments to farmers on a per bushel basis when prices are low. This will further encourage overproduction and depress prices, deepening the problem of recent years. The Administration supports policies that help producers work with markets, rather than policies that create harmful distortion of markets and further dependency on Federal programs.

Higher Milk Prices. The Administration is strongly opposed to the dairy program proposed in this bill as it is regressive and counterproductive. This dairy program will raise the cost of milk by 10-15 percent. In effect, this provision imposes a tax of at least $0.20 on each gallon of milk consumed, a tax that will be disproportionately borne by low and moderate income American families. Consumers will pay billions in additional costs. Moreover, S.1731 works against all dairy farmers. States operating outside the federal marketing orders, representing about 35 percent of production, will lose income. By raising prices, S.1731 will also further exacerbate dairy overproduction. The Federal government currently owns more than 600 million pounds of non-fat dry milk -- nearly a year's supply. The bill's effect of increased supply and reduced demand will create an even more enormous surplus that would adversely impact dairy farmers for many years to come.

Risk to Markets Abroad. The greatest sustainable boost to farm income will come from exports -- if we embrace competition rather than retreat from it. After the recent successful launch of new World Trade Organization (WTO) negotiations at Doha, U.S. farm policy should continue to send a strong signal of U.S. leadership, not encourage others to undermine the rules, and jeopardize the opportunities for expanded sales abroad. S.1731 would increase the likelihood of subsidies exceeding limits under WTO rules, risking our ability to meet our existing trade obligations and undermining our ability to convince trading partners to phase out export subsidies, and open their markets to American farm products. The "circuit breaker" provision, providing the Secretary of Agriculture discretion to reduce domestic support programs (to ensure compliance with "amber box" provisions) causes concern because it is likely to prove unworkable. This approach is disingenuous because it actually creates uncertainty about the amount of support producers will receive.

The provisions included in S. 1731 requiring mandatory country of origin labeling on meat and perishable commodities are highly objectionable. These requirements would raise costs for industry and consumers, resulting in higher food costs to low-income Americans. The enforcement costs would be burdensome on taxpayers, diverting many millions of dollars from vital food safety activities. Additionally, these are the type of arbitrary requirements that we resist other countries imposing on U.S. products. As agricultural production becomes more globalized, compliance with these provisions would become increasingly difficult.

Ineffective Conservation Programs. While the Administration applauds the intention of S.1731 to increase funding for the conservation of natural resources, S. 1731 commits significant funds to a new working-lands program that does not necessarily deliver measurable, effective environmental benefits. The Administration would support a program designed to reward producers for sound stewardship practices if the program is crafted to generate genuine increased environmental benefits and is directed to our Nation's highest priority conservation needs.

Poorly Directs Assistance. After years of concern about disproportionate levels of Federal assistance going to producers least in need, S.1731 relaxes the rules and actually increases payments to the largest producers of traditional program crops. This will result in more wealthier producers bidding up land prices, buying out neighbors, and creating fewer, larger farms. The largest 8 percent of U.S. farms receive nearly half of all subsidies, while most farmers share in only 13 percent of payments. S. 1731 also continues to only support producers of program crops, leaving many farmers without any form of income support. While it is true that some larger program crop producers may be in need of assistance, the approach of S.1731 would increase payments regardless of need.

Weakened Accountability of Nutrition Program. The Administration supports changes to the Food Stamp program designed to reduce its complexity and ensure that eligible individuals are able to access the program, but strongly opposes the bill's changes to the food stamps quality control program. Changes are needed to target more effectively the poorest performing States, but the provisions of S. 1731 would go too far in relieving States of their responsibility to manage Federal resources prudently. States would be granted three years of poor performance before they face the consequence of sanction, seriously undermining program accountability. This is contrary to the President's management initiative to improve financial performance and reduce erroneous payments in Federal programs. While doing harm in the area of program accountability, the Administration believes S. 1731 does not go far enough to streamline program rules.

Unknown Budget Costs. S.1731 would provide funding that surpasses even recent record levels. While CBO estimates the cost of S.1731 would fall within the Congressional Budget Resolution, the final cost of this bill is likely to exceed the official estimate. Since the bill increases the level and role of Federal subsidies, it will cause planting decisions and prices to change, as well as increase dependency and expectations. The Administration believes it is unwise, in this time of uncertain and changing Federal resources and priorities, to enact policies that create unknown and potentially huge future demands on taxpayers.

Repeal of Prohibition of Financing Agricultural Sales to Cuba. Because of Cuba's continued denial of basic civil rights to its citizens as well as its egregious rejection of the global coalition's efforts against terrorism, the Administration strongly opposes section 335 which would repeal the prohibition on private financing by U.S. persons of sales of agricultural commodities to Cuba.

Cochran-Roberts Amendment

The Administration supports the proposed amendment by Senators Cochran and Roberts, which is consistent with the President's principles for sound farm policy. It provides for a strong safety net for farmers in times of low prices by continuing the current marketing loan program for traditional program crops, while better balancing loan rates. The Cochran-Roberts proposal for marketing loan rates would be less distorting than proposals contained in S. 1731, and it is worth noting that H.R. 2646 (Farm Security Act) follows the Cochran-Roberts approach. The Administration would like to reiterate that higher loan rates are a stimulus for overproduction, which lowers prices.

Cochran-Roberts also substantially increases AMTA fixed de-coupled payments as a trade-friendly alternative to providing a safety net for producers. The proposal also establishes innovative new farm savings accounts that provide another risk management tool for all producers – not just traditional commodity program farmers. This program will enable producers to set aside money during good years to draw on in the event of an economic downturn.

Cochran-Roberts would enhance conservation in a balanced way by improving existing programs and providing incentives for greater environmental benefits on working lands.

Finally, Cochran-Roberts authorizes program funding for a five-year bill at a generous level, within the limits of the Congressional Budget Resolution. Its relatively predictable spending enables more responsible management of farm and Federal budgets.

The Administration continues to be willing to engage in a deliberative and collaborative process that allows Congress and the Administration to develop forward-looking farm policy that better serves the interests of production agriculture, rural life, and the environment. However, the Administration believes that S. 1731 as drafted puts U.S. agriculture at risk, and consequently the Administration strongly opposes the bill.

Pay-As-You-Go Scoring

Any law that would reduce receipts or increase direct spending is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, S.1731 or any substitute amendment in lieu thereof that would reduce revenues or increase direct spending, will be subject to the pay-as-you-go requirement. OMB's scoring estimates are under development. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or the enactment of any other proposals that meet the President's objectives.